Maclaren, James

A letter to the Chancellor of the exchequer upon...

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A LETTER

TO THE

CHANCELLOR OF THE EXCHEQUER,

UPON THE

RECENT DECISION OF THE GERMAN STATES

TO

ADOPT A SILVER STANDARD:

AND

ON SOME CIRCUMSTANCES WHICH RENDER

AN

INVARIABLE MEASURE OF VALUE

MORE IMPORTANT TO

ENGLAND THAN TO ANY OTHER COUNTRY.

BY

JAMES MACLAREN, Esq.

LONDON:

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1856.

By the same Author, price Sixpence,

A LETTER
TO THOSE WHO HAVE INSURED THEIR LIVES,
ON THE
EVIDENCE AFFORDED BY THE PRESENT EXTRAORDINARY MOVEMENT
OF THE
PRECIOUS METALS

Of the Necessity and Possibility of Protecting their Property against the Effects of the continued Production of Gold.

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A LETTER

TO THE

CHANCELLOR OF THE EXCHEQUER.

SIR,

THE statesmen of Germany have now upon mature deliberation not only decided to adopt silver as their standard of value, but anticipate so marked a fall in the value of gold as to propose that the price at which their gold coins are to be taken should be revised once in six months. As this decision shows that the attention of Governments is now seriously directed to the possible effects of the increased production of gold upon property, I venture to mention some circumstances of our social condition which appear to me to render the preservation of an invariable measure of value of peculiar importance to this country.

From the great increase of personal property, from its security and convenience, which have fitted it to be used as a means of providing for the support of permanent institutions, and from the extensive system of family settlement which has arisen in consequence of the difficulty which young persons of either sex experience in obtaining establishments in life, a very large proportion of the community depend upon incomes derived from fixed sums of money.

The widows and younger children of the owners of land are almost universally provided for by fixed amounts of money charged upon the estate, which is given to the eldest son. In very many instances the wives and families of merchants, manufacturers, solicitors, medical men, and tradesmen are provided for in a similar manner: the business is given to a son or a partner, and the widows and children are to have fixed sums out of the profits. Those who have life incomes, such as salaries or the gains of a profession, and do not themselves accumulate, insure their lives for fixed sums for the benefit of their families.

It is not necessary to enter into any detail of the manner in which each species of settled property

will be affected. It is obvious that in each case the intention is to provide a certain amount of the necessaries and conveniences of life, though a fixed sum of money is given, and that a fall in the value of that money which renders it incapable of purchasing the expected amount of those conveniences and necessaries, partially frustrates the settlement. As an example of the effect of a given fall in the value of gold upon such provisions, we may take the case of a portion of £1000, payable on majority to a child now aged fifteen. If gold fell in value £2 per cent. per annum, a fall which would make but a yearly difference of one shilling or eighteenpence in the quarter of corn according to the price for the time, and which might be easily attributed to other causes than the change in the value of money, would reduce such a portion to the sum of £880. Great as this loss appears, it would be far exceeded by that inflicted in many cases upon the families of those who have insured their lives, who have paid their premiums (often the fruits of great selfdenial) in a currency of full value, and whose families will be exposed to the effects of the depreciation accumulated for a long period.

Most persons invest a part of their savings on

mortgage or in the funds. The very large aggregate sums in the hands of trustees and in the Court of Chancery chiefly belonging to the younger members of families, are by law required to be invested on mortgage or in the funds; the endowments of the more recent of our churches, schools, hospitals, and public institutions of all kinds consist of stock; in short, the enumeration of the species of property which would be affected by a fall in the value of money, comprises all that the prudence of the nation has endeavoured for the most important purposes to set aside out of danger of loss, and those who would suffer, instead of being, as they are generally described, a few annuitants, are in reality the great majority of the upper and middle classes.

As this state of property is a necessary consequence of the progress of society, it evidently cannot be changed by having recourse to any of those modes of investment which are sometimes suggested as a means of avoiding the loss which would arise from a fall in the value of gold.

But the loss would not be confined to those who depend upon fixed sums of money: the numerous clerks of our manufacturers and merchants would be

affected. In the great majority of cases it is quite evident that their salaries would not rise so rapidly as the rise in the price of the necessaries of life; a pinch would be felt before an increase was obtained; this relief would be but temporary, the pinch would return again and again, and the life of the recipient of the salary would be spent in a constant struggle to secure his previous remuneration. There can be little doubt that the working-classes would suffer in the same manner; there has never yet been an instance in which their wages increased so fast as the rise in the price of provisions. It was towards the end of the reign of Elizabeth that the money of this country began to be seriously affected by the gold and silver mines of America, and it was precisely at this epoch that the distress of the labouring-classes came to a crisis, and the celebrated law was enacted which provided a compulsory provision for them, and established our poor law. Again it was during the suspension of cash payments by the Bank of England in the Revolutionary war with France, that this poor law was most abused, and that wages were paid out of the poor rates. If there be a gradual rise of prices, we shall find it accompanied with an insatiable demand for more

wages; the result must be an exasperation of the ill feeling now prevalent on the part of the men towards their employers, and the belief that the working-classes are sacrificed to the capitalists will be strengthened.

Those landlords who at present have let their lands on lease may be added to the catalogue of sufferers, though their loss would not be so great, because their rents would rise at the expiration of the leases.

The public taxes must be increased, for all the expenses of Government, except the interest of the public debt, must become greater; all local taxation, including the poor rates, must also be augmented. This increase of taxation would press very heavily on those whose means are already straitened by the high prices of all articles, and it would not perhaps be very contentedly borne by the rest of the community. They would probably be more sensible of the increased taxes than of the hidden benefit conferred on them by the fall in the value of money.

As the depreciation in the value of money which we now expect will not be a fall at once to a lower level, which will thenceforth be permanent, but will be spread over a long period, it must affect all

future as well as all past arrangements, and must introduce a vast amount of confusion. The practice of life-assurance, of family settlement, of granting leases, of prudent investment, must be discouraged. If investments in the funds and on mortgage, which are now looked upon as safe, though not very remunerative modes of employing money, are to be subject to a certain though gradual deterioration, people will be driven to invest their savings in railways, banks, and commercial speculations of a like hazardous nature. The state of the currency will act as a premium upon imprudence, and will foster the spirit of speculation, already too rife amongst the smaller class of capitalists.

It seems absurd to recapitulate instances in which the want of an invariable measure of value must be injurious, or to suppose that in a highly civilized state there could be any doubt as to securing the most invariable standard that could be found. No one would think for a moment of retaining a standard measure of length, breadth, or capacity, which was known to be in danger of varying; but this measure is of trifling importance compared with the measure of value, which more or less influences almost every transaction, and whose changes are

less obvious and less easily guarded against than those of the more material measure. Unfortunately the influence of the measure of value is so subtle that it is but little understood. The subject has hitherto been entirely in the hands of the mercantile part of the community, who anticipate rising prices and a money market constantly easy, and who have apparently so thoroughly persuaded the nation that the effects of the great production of gold on the currency must not be checked, that the advocate of an invariable measure of value, far from having any occasion to apologise for supporting a mere truism, would, at least before the recent decision of the German States, have been obliged to deprecate general ridicule, and must now refute the arguments by which these gentlemen support their position, before he can hope that any attention will be paid even to the long list of evils which have been shewn to result in this country from a fall in the value of money.

These arguments are: (1) that the country is pledged to maintain a gold currency, and is not at liberty to change it, whatever may be the consequences to a portion of the community; (2) that the great production of gold is a blessing bestowed by

Providence, which would be lost if its effect on the currency were checked.

Great as may be the hardship inflicted and the confusion occasioned by a fall in the value of gold, yet if it be true that the nation is pledged to maintain a gold standard, no complaint can be made. But no such pledge has been given. The idea originated at the time of the discussion respecting the resumption of cash payments in 1819. The dominant party in the country who during the war had authorised the suspension of cash payments by the Bank, had always denied that any depreciation of the currency had resulted from the measure. So late as 1811, by a resolution of the House of Commons on Mr. Horner's motion for the adoption of the report of the Bullion Committee,[a] they had declared that a one-pound note and a shilling were equivalent to a guinea, and subsequently a law was passed rendering it penal to give more than a one-pound Bank-note and a shilling for a guinea. As the Government had borrowed money which they allowed at the time of the loans to be equal to gold, and as they punished people for treating this money as of less value than gold, they could not in decency

[a] Annual Register, 1811, p. 44.

refuse repayment in money of the same value, and the bullionists in 1819, to avoid entering into the difficulties of the abstract question, whether commerce was benefited by a depreciation of the currency, as alleged by the opposition, appealed to what had happened during the suspension, as a pledge on the part of the state to resume a gold standard.

The real cause, however, of the return to the metallic standard, was to secure a steady measure of value, that measure during the restriction on cash payments having depended entirely upon the will of the directors of the Bank of England upon the number of notes they thought proper to issue.

It is impossible that such a pledge could have been inferred from anything short of a positive declaration, that gold was chosen as the standard for the express purpose of giving debtors and creditors a chance of gain or loss. In no case of a settlement can it be said that anything in the nature of a bargain exists; men arrange their property in the way which they conceive to be most advantageous for their families, and they must make these arrangements by reference to the national standard of value. As therefore the state of society with us is such that the power of making

settlements is absolutely necessary for the welfare of a large proportion of the community, it is so evidently the duty of the Government to keep the measure of value constant, that all members of the community must have known that the object of the state in choosing gold as the standard of value was to secure the steadiness of that standard, and not to give either debtors or creditors the chance of gain or loss by variations in its value. When any country has reached such a pitch of civilization as to require an intricate distribution of its property, it follows, that its currency must be kept in a state of perfection correspondent to its civilization.

I am aware that it may be said that the return to the gold standard in 1819 inflicted injury upon the heads of families who had portions to pay, and that it is unfair now to prevent them from reaping the benefit of the expected fall in the value of gold; but because that class suffered a loss thirty-six years ago, is no reason why the younger members of their families should experience a similar one now. The individuals who suffered by the measure in 1819, will not now be compensated by what is to happen, and the mere compensation of class by class is unworthy of a moment's serious attention.

So far then from there being any pledge to maintain a gold standard, it is evident that such a pledge is inconsistent with the state of society existing in this country.

We have now to consider how far the advantages conferred on us by the discovery of gold will be lost by a change of the standard. It cannot be alleged that the transfer of part of the property of the younger branches of a family to its head, or of that of a creditor to his debtor, can be a direct cause of national advantage. The nation can gain on this ground only as being itself a debtor to the fundholders; but here again there would be but a transfer of property from one part of the nation to the other, and before any real advantage is proved to be gained, it must be shown that the taxes levied to pay the fundholders impede the industry of the country so much as to outweigh the evils which would arise from the depreciation in the value of money. The funds are intimately mixed up with our whole system. Instead of being possessed by a few rich men, they are in general either held in small sums or by trustees for numerous individuals. "Any attack," says Mr. Macculloch, "upon the dividends, would destroy all our system of in-

surance and banking, and overspread the country with bankruptcy and ruin. Not only is every proposal for an invasion of the property of the fundholders bottomed on injustice and robbery, but it would were it acted upon be little less ruinous to the community than to the peculiar class intended to be plundered." The invasion alluded to by Mr. Macculloch would lower the price of the funds, and would reduce bankers and insurance companies to pay their customers only a certain number of shillings in the pound. The loss inflicted by a depreciation of the currency would not reduce these bankers and the directors of insurance companies to this extremity, but the result to their customers would be the same. They would be able to purchase no more commodities than they would if the currency had remained as before, and they had received merely a dividend of so many shillings in the pound. It seems clear that only when the national industry was paralysed by taxation, could any gain be obtained by the nation at the expense of the fundholder. At present we are far from being in this state. Should we fall into it, we had better at once take a part of their property from the fundholders to relieve our burthens, than endeavour to accom-

plish the same end by an expedient which would upset every settlement and every contract in the kingdom.

The argument that to interfere with the effects of the great production of gold would deprive us of the advantages which Providence has thrown in our way, is a very insidious one. As generally stated, it would lead to the belief that we should throw away all the advantages which those discoveries have given to us. In examining this argument we must divide these expected advantages into two classes, those which arise from the gold as merchandise, and those which flow from its effect on the currency. In the first place the attraction of the gold-field is said to have called forth a great display of industry, the gold-diggers have been excellent customers to the mother country, our goods are adapted to their wants, we obtain their gold cheaper than other nations, and are thus enabled to procure what we want from those nations on good terms; in short, the result to us is said to be almost the same as if gold-fields had been discovered in England. The gold also has given rise to a better division of labour, to new applications of machinery, to more economy and fresh accumulations of capital. Allowing this to

be true, what is there in a change of standard to interfere with it? The encouragement to our industry occasioned by the new market would still exist, gold would still be valuable, and still be eagerly sought for, though deprived of the power of disturbing all our social arrangements. No one has ever suggested that if gold had been adopted as the universal currency, silver would have lost its value, or the silver-mines of America would no longer have been worked.

The second class of advantages to be derived from the great production of gold, those which are to arise not from the increased market, but from the depreciation of the currency, would be destroyed by a change of standard, if indeed that can be destroyed which had no real existence. I believe that even those who expect a great benefit to themselves from a gradual depreciation of the currency, would be disappointed. The speculative spirit would grow with what it fed upon until it assumed such gigantic proportions that the increased supply of money would be quite inadequate to support it; but assuming that money could be more easily borrowed, and that prices were to rise continually, and the mercantile class were on this account to flourish, it is clear that no more real wealth

would be produced for the nation, there would be no increase of commodities, for increase of money is not enlargement of capital, by which alone more commodities could be produced. If by means of the depreciation of the currency the mercantile classes enjoy any advantage, it can only be at the expense of some other branch of the community. It is unnecessary here to enter more deeply into this wearisome question, the theory is but a repetition of the dreams of Law and the Birmingham Currency School, whose fallacies have been refuted by our ablest economists, by Smith, by Huskisson, and by Mill, and it is fortunate that this theory has been so refuted, it is evidently most dangerous to the stability of any society, as it holds up an established system of property as an impediment to the general prosperity.

It appears then that there is nothing but a shadow of advantage to be opposed to the real loss which would be inflicted by allowing the fall in the value of gold to run its course.

Few of the circumstances which so strongly point out the necessity of a steady measure of value in this country, prevail to the same extent in Germany. Life assurance, though more practised there than in any other country of Europe, is not so

widely spread as with us; there are no leases, comparatively no large manufactories, and the agricultural workmen do not, as with us, depend entirely upon money wages, but are more or less connected with the land, and enjoy a certain proportion of its produce. Austria, considering her resources, is much more incumbered with debt than we are. Germany, according to the views of the advocates for a depreciation, has more to gain and less to lose by a fall in the value of money than we have, yet she has not hesitated to take the best means in her power to keep that value constant. The Germans are too philosophic to suppose that the prosperity of a highly civilized state can be advanced by what is, in fact an imperfection in part of the machinery of civilization.

If we followed the example of Germany, it would not be necessary to accumulate a great mass of silver. No alteration need be made in our coins, the gold coin alone would be a legal tender for large sums, but its value would be determined at intervals by reference to the value of silver. If for instance the average value of silver for one year had increased one penny per ounce, the value at which the sovereign was to be taken in payment at the end of

the year would be about 19s. 8d. It would still be in the power of every owner of bullion to have it coined at the mint in any quantity. If the capital, commerce, and manufactures of the country required an additional currency, more gold would be coined, for such an addition would not raise the value of silver or lower the denomination of the gold coin. No part of the real benefit to be expected from the gold discoveries would be lost, the change of standard would cause no confusion, nor could it be said to enhance in any degree the measure of value; on the contrary, as gold must from its greater convenience be adopted as the actual currency all over Europe in place of silver, the value of silver will fall rather than otherwise from the limitation of the field for its employment, and there will still be some depreciation of the currency, though all the great evils which may result from a continuance of the production of gold after the present rate will be avoided.

Although the effect of such an arrangement is obvious, I cannot forbear contrasting it with what would occur were no steps taken to preserve the measure of value. If a silver standard were adopted, and gold were to become so abundant

that the price of silver rose threepence per ounce, the sovereign would pass for nineteen shillings only; a landowner who had mortgages and portions to pay would have to give £20 for every £19 due from him, but he would receive £20 for every £19 due from his tenants; these latter would raise the price of their produce, and the public would be enabled to pay the increased price because salaries and wages would rise in proportion, and every man would have a proportionate share of the increase of gold. Those who received the £20 instead of the £19 would be no better off than before, as they would have more to pay for all that they required; in short, things would remain as they are, and whatever increase of capital, commerce, and manufactures the state of society permitted, would not be interrupted. If a similar fall took place in the value of gold without any arrangement to sustain the measure of value, no such self-adjustment would take place; an income-tax of £5 per cent. would be imposed in the first instance upon the community, except those whose capitals were actually engaged in production, and a portion of the landowners who had not granted leases. After a time some more of the landowners would cast off

the tax wholly, and those who lived by salaries and wages would partially escape it after a painful struggle, but upon the greater portion of the upper and middle classes, and upon many of our endowments it would remain in perpetuity. An income-tax of £5 per cent., howsoever imposed, would produce the same amount of hardship, and in this case the tax would not be levied for a great national necessity, but a small part of it only, that levied on the fundholders, would go into the coffers of the nation, the remainder would be received by the landowners, by those who borrowed money, and partially by those capitalists who had not yet increased their salaries and wages, and there would be nothing to set against all the hardship, confusion, and discontent, which must arise, but the visionary advantage to be derived from an increase of money without a corresponding increase of capital. Nor is such a fall in the value of gold merely a remotely possible contingency, the price of silver is already nearly threepence per ounce higher than it used to be, and the greater part of this rise in price is due to the fall in the value of gold.

The belief now so generally entertained that silver has become really dearer, is a most extraordinary error. There can be no doubt that it has in reality become cheaper when estimated in commodities, which is what we have to consider when treating of the effects of a depreciation of the currency. It must be allowed that the great production of gold has altered its value as compared with silver. It would therefore be the interest of the owners of gold coin to exchange it for silver coin, as they would thus obtain more command over commodities, provided there were people ready to exchange their commodities for silver at nearly the old rate. This is always the case. There are always persons ready to exchange their commodities for an article so generally prized as silver, if its value fall a little. No extraordinary demand for silver is therefore necessary to account for the substitution of gold for silver in France at present. It is said that up to the end of 1855 fifty millions sterling of silver have been displaced from the currencies of America and France by the gold. This silver must have been thrown in the first instance on the European market, and silver must have lost somewhat of its value as compared with commodities. The whole fifty millions of silver have not been sent to the East, therefore there must still

be an extra supply of silver in the European market, and it must continue to be slightly cheaper as compared with commodities. If the whole fifty millions had been sent, the value of silver would have remained the same. Really to raise its value, an additional amount beyond those fifty millions, sufficiently large to affect the value of the whole mass of silver in Europe, must have been abstracted from that mass. It is not supposed that the profits of our trade with India and China are less than formerly, or that the consumption of Eastern produce has been at all checked by the high price of the silver by which we purchase it, one or other of which circumstances must have happened had the price of silver been really higher when estimated in commodities.

The only fact which militates against this view is that silver is sought for in those countries which use a silver standard only, which implies a real demand, as it would seem that the silver coin of those countries could not be affected by the gold. Possessed, however, of the knowledge that gold now performs part of the work formerly performed by silver, and that no new employment has been found for the whole of this displaced silver, far less for such an

increased quantity of it as would affect the value of the whole mass of it in Europe, we must suppose that there is some explanation of this apparent demand for silver in those countries which use a silver standard, other than a real increase in the price of that metal when compared with commodities. It will probably be found either that the silver coin of those countries is collected from the hands of the retail dealers, who are not aware of the change in the relative value of gold and silver, or that the value of gold is in reality falling, as compared with silver, more rapidly than the bankers of those countries suppose, or that the greater convenience of gold as coin is sufficient to cause the displacement. Allowing that silver has fallen a little as compared with commodities, it would naturally go to the East. Silver has always been a favourite commodity in India and China. Our trade with those countries is said to have increased, we want more of their goods, it is natural that we should pay for them in a commodity which is a favourite with them and cheap to us. If the silver mines of Mexico had produced an extra amount of twenty millions annually, it would have appeared most natural that a part of it should have been exported to the East. When the discoveries

of gold were announced and people began to consider the question of adopting a silver standard, it was asserted that the prospects of silver mining were such as to promise so large an increase in the production, that silver was as likely to fall in value as gold. This prediction has not as yet been fulfilled, but from the nature of the ores of silver and their position in the earth, which renders the amount of silver produced merely a question of capital, it seems probable that the quantity of silver in the world will always keep pace with the growth of its capital.

The real value of the assertions which are from time to time made, that the gold will produce no effect, may be estimated from the facility with which those persons who deny the probability of a fall in the value of gold admit the idea that silver will rise in value, though the yearly addition to the gold is double the yearly subtraction from the silver, and the value of the mass of gold in the world is less than that of the mass of silver.

There is nothing in the present aspect of affairs to induce a belief that the increased production of gold will not seriously affect its value. Its power to depreciate the currency has never yet been thoroughly tried, it has already raised the price of all

commodities somewhat, as is shewn by the displacement of silver on the continent, but that displacement, by delaying the enlargement of the European currencies, has at present prevented the further increase of gold from coming in comparison with commodities.

The great undertakings now on foot in Europe cannot employ the increase of money which will commence so soon as this displacement is at an end. These projects cannot create capital, they can only employ that which is already in existence, and which requires already the use of very nearly as much money as it would do when employed in these new enterprises. Nor is there anything in the present tightness of the money market to shew that money is at this time really scarce as compared with commodities. If it were so, prices would be low, but the want of money at present felt is co-existent with prices which are unusually high. The real cause of the tightness in the money market is either a want of capital or a result of some derangement of the system of credit, and is quite unconnected with the value of gold as compared with commodities.

In the reign of James the First, when the gold

and silver mines of America were in full production, a great scarcity of money was felt in this country. We then used both gold and silver as a common standard of value, the proportion in which the coins of each metal exchanged with each other being fixed by law. As the produce of the silver mines in America far exceeded that of her gold mines, silver began to fall in value when compared with gold, and the gold coins of England began to disappear just as now happens with respect to the silver coins of France. To prevent this result the King exercised a branch of his prerogative and raised the denomination of the gold coins, that is, declared that they should exchange for a greater proportion of the silver coins. As he raised the denomination too much, it became advantageous to procure silver coin in exchange for the gold coin, and the silver in its turn disappeared. We should have expected that as one coin merely replaced the other, the amount of money in the country would not have been altered, yet complaints of a want of money were loud, and the King found it necessary, more than once, to forbid the use of gold and silver as plate, with a view to increase the quantity employed in

coin, a most singular measure at the time when the stock of precious metals in Europe was increasing so rapidly, and this scarcity of money was felt while prices were rising so much that they ultimately were four times what they had formerly been.[a] It is probable that similar circumstances would now produce a much greater feeling of scarcity than in the reign of James the First. The abundance or scarcity of money is now estimated by the state of the money market. Perhaps during the process of substituting gold coin for silver in France, more coin is in the hands of the people, and as the metallic currency of the country cannot be materially increased until the silver is displaced, the reserves in the banks on which the state of the money market depends, may be diminished. The banks may be compelled to reduce their discounts, and a monetary difficulty may be felt throughout Europe.

France has still her choice of a standard to make, and though there might not be so great a transfer of property in that country from a depreciation of its currency as would be experienced by us, there

[a] Lord Liverpool on Coins, p. 63.

are other circumstances which render an invariable measure of value nearly as important to her. The fundholders of France are a very influential body in the capital, and so are the workmen. The effects of a fall in the value of money on these two classes might compromise the peace of Europe.

France seems very unwilling to part with her double standard; it is generally supposed, however, that she will be obliged to make a choice of either gold or silver as a standard, because it is practically impossible to make use of both precious metals as a principal measure of value at the same time, but if every debtor were authorised by law to pay half the debt due by him in gold or in silver at his option, and every creditor authorised to demand payment of half the debt due to him in gold or silver at his option, it seems evident that under every fluctuation in the value of the two metals, the currency of the country must consist of both gold and silver in equal portions. The real measure of value in a country where such a law existed, would be the mean or average value of both precious metals. Assuming that half the silver of France has now been displaced by the gold, the enactment of such a law in

that country would immediately check the efflux of her five franc pieces, and probably put a stop to the confusion now existing in her monetary affairs. It would also be a step in the right direction. It would diminish by one-half the evils which she may experience from a falling measure of value, and give her time and opportunity to observe the progress of the gold without danger of material injury.

I am, Sir,

Your obedient Servant,

JAMES MACLAREN.

Pashley, Sussex,

19*th November*, 1856.

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TITLE